

ACTEX EA-2, B Study Manual; 2010 Edition
Errata – June 14, 2010

Page 217, Solution to Question 18

Replace with:

The gateway requirements to allow combined plans to be tested on a benefits basis are detailed in regulation 1.401(a)(4)-9(b)(2)(v). Under the most commonly used methods of meeting the Gateway test, the highest allocation rate of any HCE is used to set the lowest allowable rate for any NHCE. So the first step in solving this problem is to determine the allocation rate of the sole HCE under the plan, as a combination of the DB% rate (by converting the DB plan accrual to an equivalent contribution allocation) plus the DC% rate (determined directly from the DC plan contribution):

$$\begin{aligned} \text{DB\%} &= (\$8,000 \times 8.375 / 1.085^{10}) / \$225,000 = 13.17\% \\ \text{DC\%} &= \$25,000 / \$225,000 = 11.11\% \\ \text{Total \%} &= 13.17\% + 11.11\% = 24.28\% \end{aligned}$$

Note that, because this question comes from the 2007 exam, the 2007 cap on compensation under 401(a)(17) is used to determine the percentages.

Because the HCE allocation % is greater than 15% but less than 25%, the minimum NHCE rate is 5%. Every NHCE must have an allocation rate of at least 5%. The question contains sufficient data to calculate the NHCE DC% rate directly:

$$\begin{aligned} \text{NHCE1} & \$1,400 / \$20,000 = 7.00\% \\ \text{NHCE2} & \$2,000 / \$30,000 = 6.67\% \\ \text{NHCE3} & \$1,200 / \$40,000 = 3.00\% \end{aligned}$$

Under the allocation% rate used for NHCE employees, the *average* DB% of all NHCE employees is added to the DC% of each employee. NHCE3 is the only participant with less than the minimum 5% allocation, falling 2.00% short. Therefore, if the average DB% is at least 2.00%, the plan will pass the Gateway requirement. The amount X is determined by the following calculation:

$$\begin{aligned} \text{NHCE1 DB\%} &: (\$400 \times 8.375 / 1.085^{25}) / \$20,000 = 2.18\% \\ \text{NHCE2 DB\%} &: (\$475 \times 8.375 / 1.085^{23}) / \$30,000 = 2.03\% \\ \text{Minimum DB\% for NHCE3} &= (2.00\% \times 3 \text{ NHCEs}) - 2.18\% - 2.03\% = 1.79\% \end{aligned}$$

$$X = 1.79\% \times \$40,000 \times 1.085^2 / 8.375 = \$101$$

ANSWER B

Page 220, Solution to Question 27

Replace with:

An employer's total Withdrawal Liability is calculated under the PBGC regulations under ERISA Section 4211. In this case (the rolling 5 method), the plan's total unfunded liability as of the end of the year prior to withdrawal is multiplied by a fraction. The fraction has a numerator equal to contributions over the five years prior to withdrawal of the withdrawing employer and a denominator equal to the total contributions of all employers over the five years prior to withdrawal:

Unfunded Vested Benefits on 12/31/06 = \$6,150,000

Fraction Numerator: (\$15,120 + \$7,260 + \$7,200 + \$6,800 + \$6,930)

Fraction Denominator: (\$507,600 + \$475,200 + \$459,000 + \$510,000 + \$480,150)

Fraction: \$43,310 / \$2,431,950 = 1.78%

Employer X total liability: \$6,150,000 x 1.78% = \$109,470

The question states that the plan includes the *de minimus* rule for determining withdrawal liability, and since the amount determined is less than \$150,000, it is possible that the reduction applies. The withdrawal liability calculated exceeds \$100,000 by \$9,470. $\frac{3}{4}$ of 1% of total unfunded benefits of \$6,150,000 is \$46,125. Since this is less than the \$50,000 minimum for determining the reduction:

De minimus reduction amount: \$46,125 - \$9,470 = \$36,655

Adjusted withdrawal liability = \$109,470 - \$36,655 = \$72,815

Collection of Withdrawal Liability – ERISA Act Section 4219. From the data provided in the question, it can be seen that, for the 10 years prior to the withdrawal calculation date, the highest base units total for Employer X were for the years 1999 – 2001, and the largest per unit contribution in the ten year period from 1998 to 2007 (the ten year period ending with the year of withdrawal, inclusive) is 0.37, therefore:

Annual payment: $(\$50,000 + \$60,000 + \$55,000) / 3 = \$55,000 \times 0.37 = \$20,350$

The payment is made at the start of each year and the remaining balance to be paid is increased at the plan's interest rate of 8%. The reduction of liability occurs as follows:

Year 1: $(\$72,815 - \$20,350) \times 1.08 = \$56,662$

Year 2: $(\$56,662 - \$20,350) \times 1.08 = \$39,217$

Year 3: $(\$39,217 - \$20,350) \times 1.08 = \$20,376$

Year 4: $(\$20,376 - \$20,350) \times 1.08 = \$28$

And the total of all payments is $(\$20,350 \times 4) + \$28 = \$81,428$

ANSWER C

Page 283, Solution to Question 23

In the last line, 15 should be 13.

Page 287, Solution to Question 33

In the last line, total number of participants X should be $0 + 0 + 27 + 15 = 42$.